

VZCZCXRO2267  
RR RUEHCHI RUEHCN RUEHDT RUEHHM  
DE RUEHHI #0193/01 0510931  
ZNR UUUUU ZZH  
R 200931Z FEB 08  
FM AMEMBASSY HANOI  
TO RUEHC/SECSTATE WASHDC 7199  
INFO RUEHHM/AMCONSUL HO CHI MINH 4315  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RHEHNSC/NATIONAL SECURITY COUNCIL WASHINGTON DC  
RUEHXS/ASEAN REGIONAL FORUM COLLECTIVE

UNCLAS SECTION 01 OF 02 HANOI 000193

SIPDIS

SENSITIVE  
SIPDIS

STATE PASS USTR

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [VM](#)

SUBJECT: VIETNAM'S 2007 ECONOMY: HIGH ECONOMIC GROWTH, RECORD  
FOREIGN DIRECT INVESTMENT, HIGH INFLATION

REF: 07 Hanoi 1729, 07 Hanoi 2013

HANOI 00000193 001.2 OF 002

¶1. (U) Summary: Vietnam's Gross Domestic Product (GDP) grew 8.5 percent in 2007, the highest economic growth rate in the last ten years. 2007 was also a record year for Vietnam's foreign direct investment (FDI) since the country opened its economy with USD 20.3 billion new and additional commitments. Exports continued to be strong with USD 48.4 billion, up 21.5 percent from the 2006 level. Imports continued to outpace exports, however, resulting in a record trade deficit of USD 12.4 billion. Inflation surged with the December 2007 Consumer Price Index (CPI) rising 12.63 percent compared to December 2006. End Summary.

#### HIGHEST GDP GROWTH RATE IN THE LAST TEN YEARS

-----

¶2. (U) The General Statistics Office (GSO) of Vietnam recently released its 2007 economic figures, which continue to demonstrate the positive results of economic reform. Vietnam achieved an 8.5 percent GDP growth rate in 2007, following the previous year's impressive growth rate of 8.2 percent. Total GDP was VND 1,143,442 billion, or approximately USD 71.5 billion. The country continued its economic restructuring, with the industry and construction sector being the biggest contributor to the GDP growth rate (4.3 percent), followed by the services sector (3.5 percent) and agriculture-forestry-aquaculture (0.6 percent).

#### INDUSTRY AND CONSTRUCTION SECTORS

-----

¶3. (U) The industry and construction sectors sustained a high growth rate of 10.6 percent. The industries with the highest growth rates included automobile assembly (52.8 percent), air conditioners (51.9 percent), electrical engines (24.3 percent) and motor bikes (23.9 percent). The local private sector, which remains the biggest revenue generator, grew 21% from 2006 and accounted for 37 percent of total industrial output. The growth was largely attributable to the increased number of new private domestic companies, a sector which benefited from the new Enterprise Law and GVN promotion. The state sector grew 10.3 percent (half the rate of the private sector). The year witnessed a continued reduction of the number of state-owned enterprises (SOEs), especially SOEs under municipal/provincial management.

#### SERVICES SECTOR

-----

¶4. (U) The services sector achieved 8.7 percent growth, slightly

higher than its 8.3 percent growth in 2006. The biggest contributors to the high growth rate of the services sector were the traditional service industries, such as hotels and restaurants which were up 12.7 percent, and the collective group of transportation, post and telecommunications, and tourism services, up 10.4 percent. The rapidly expanding banking, insurance and financial services sector also reported high growth rate of 8.8 percent.

#### AGRICULTURE, FORESTRY, AND FISHERY SECTORS

-----

¶5. (U) The growth rate of the agriculture, forestry, and fishery sectors stood at 3.4 percent. Agriculture production in 2007 suffered from several severe typhoons and disease break-outs. An outbreak of blue ear disease affected the pork industry, while the return of avian influenza in some provinces continued to suppress both demand and supply for poultry products. High animal feed cost, disease, and lack of food safety and hygiene controls will be continuing challenges in Vietnam's agriculture and animal husbandry industry.

#### GROWTH DRIVER: DOMESTIC CONSUMPTION

-----

¶6. (U) Domestic consumption continued to be a major growth engine in 2007. Total retail sales and services revenue (about USD 45 billion) rose 23.3 percent over the 2006 level, reflecting a burgeoning consumer economy. Many foreign direct investors now cite the attractiveness of the local market when discussing their plans to manufacture in Vietnam. Domestic consumption will likely continue to expand through 2008, as salary levels rise and FDI increases. The pay raise program for civil servants (effective from January 2008 but discussed and announced in November/December 2007) may also act as a demand stimulator. The Government of Vietnam (GVN)'s salary reform plan, which is aimed at narrowing the wage gap between foreign and domestic enterprises by 2010 through annual increases of minimum salary for civil servants, will likely

HANOI 00000193 002.2 OF 002

reinforce the current higher consumption trend.

#### GROWTH DRIVER: FDI

-----

¶7. (U) Part of Vietnam's high GDP growth stemmed from a high level of FDI, which reached USD 17.8 billion in new registered capital, more than double that of 2006 (USD 7.6 billion). In addition, USD 2.5 billion was added to 379 existing projects, making up a total of USD 20.3 billion FDI committed to Vietnam in 2007, a record level since the country began the "doi moi" or economic renovation process in 1986. Foreign invested enterprises (FIEs) posted total revenue of USD 39.6 billion (up 35 percent year-on-year), earned USD 19.8 billion from exports (up 36 percent), and paid USD 1.6 billion in taxes (23 percent increase over 2006).

#### STRONG EXPORTS BUT EXPANDED TRADE DEFICIT

-----

¶8. (U) The country earned USD 48.4 billion from exports, up 21.5 percent over 2006. In addition to the four traditional key export categories (crude oil, textile and garment, footwear, and aquatic products), wood products and electronics/computers emerged as Vietnam's new major export earners with export values reaching USD 2.4 billion and USD 2.2 billion respectively.

¶9. (U) Vietnam's imports in 2007 soared by 35.5 percent to USD 60.8 billion. As imports continued to outpace exports, the country's trade deficit expanded to USD 12.4 billion, equivalent to 26 percent of its exports or approximately 17 percent of its GDP. The United States continues to be Vietnam's largest export market, accounting for 21 percent of Vietnam's total exports in 2007.

#### HIGH INFLATION: NEW CHALLENGE

-----

¶10. (U) The CPI in December 2007 increased by 12.6 percent compared to that in December 2006 (reftels), the highest level in the last

ten years. Prices of all goods and services in the price basket went up, but food (up 21.2 percent) was the major driver of the rising CPI, followed by prices for houses and building materials (up 17.1 percent). Prices of other goods and services rose by 1.7 to 7.3 percent. GSO attributes this inflation to supply side factors, noting that Vietnam is still sourcing many materials for industrial production (steel and garment manufacturing in particular). It also points to rising fuel and non-fuel commodity prices in the world market as having a direct impact on the prices of imported materials.

¶11. (SBU) Comment: Vietnam's trade deficit is not new. The country relies heavily on imports of intermediate inputs for some of its export production (garments in particular). Moreover, demand for imports of capital goods remains strong and is expected to continue to grow for this developing country. Still, the deficit could grow even more if there is an economic slowdown in its major export markets. In that vein, the local IMF representative recently cited financing of the trade deficit as a concern. He explained that though FDI commitments to Vietnam were impressive, disbursement remained weak (only USD 4.6 billion in 2007), meaning that the trade deficit must have been financed by shorter term portfolio investment. Financing the deficit could become a more serious issue were these inward portfolio flows to slow down. The IMF does not believe that the trade deficit has drawn adequate attention from the GVN. End comment.

MICHALAK